

BANK OF CANADA

The target for the overnight rate stays at 1% The BoC is more concerned about imbalances in the household sector

ACCORDING TO THE BANK OF CANADA (BoC)

- The target for the overnight rate stays at 1.00%.
- Although the outlook remains for stronger momentum in the global economy in 2015 and 2016, the profile is weaker than in July and growth prospects are diverging across regions. Persistent headwinds continue to buffet most economies and growth remains reliant on exceptional policy stimulus.
- The U.S. economy is gaining traction, particularly in sectors that are beneficial to Canada's export prospects. The U.S. dollar has strengthened against other major currencies, including the Canadian dollar.
- In Canada, exports have begun to respond. However, business investment remains weak. Meanwhile, the housing market and consumer spending are showing renewed vigour and auto sales have reached record highs, all fuelled by very low borrowing rates. The lower terms of trade will have a tempering effect on income.
- Canada's real GDP growth is projected by BoC to average close to 2 ½ per cent over the next year before slowing gradually to 2 per cent by the end of 2016 [...]. As global headwinds recede, confidence in the sustainability of domestic and global demand should improve and business investment should pick up.
- As the economy reaches its full capacity in the second half of 2016, both core and total CPI inflation are projected to be about 2 per cent on a sustained basis.
- The Bank judges that the risks to its inflation projection are roughly balanced. Meanwhile, the financial stability risks associated with household imbalances are edging higher.

COMMENTS

Overall, the monetary authorities seem to be more optimistic about the growth outlook, although they did stress the uncertainty surrounding economic conditions and the various projections. Among other things, the BoC notes that the movement by Canadian exports is encouraging thanks to a healthier U.S. economy, an improvement the monetary authorities had been awaiting for some time.

The BoC's economic scenario has not changed much from last July's. The monetary authorities nonetheless mention that imbalances in the household sector could rise further, given the lively housing markets in some parts of the country and consumer spending's recent strength (especially on motor vehicles). This concern, combined with some positive developments in North America's economic landscape, is clearly responsible for the omission of the remark on the BoC's neutrality on the timing and direction of the next change to key interest rates. We can therefore assume that the monetary authorities are now ruling out the possibility of having to cut the target for the overnight rate.

Implications: As we have thought for several quarters, the next monetary policy change will be a key interest rate increase. The big unknown is the time when the increase will be ordered. Despite some encouraging signs, major uncertainties surround Canada's economic outlook and the BoC will wait several more quarters before going into action. Note that Canada's economy still has surplus production capacity, which offers some leeway. In our opinion, the first hike in the target for the overnight rate will not come before the fall of 2015.

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Schedule 2014 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>		
JANUARY			JULY				
9	European Central Bank	s.q.	0.25	1	Reserve Bank of Australia	s.q.	2.50
9	Bank of England	s.q.	0.50	3	European Central Bank	s.q.	0.15
15	Bank of Brazil	+50 b.p.	10.50	3	Bank of Sweden	-50 b.p.	0.25
21-22	Bank of Japan	---	---	10	Bank of England	s.q.	0.50
22	Bank of Canada	s.q.	1.00	11	Bank of Mexico	s.q.	3.00
29	Reserve Bank of New Zealand	s.q.	2.50	14-15	Bank of Japan	---	---
29	Federal Reserve	s.q.	0.25	16	Bank of Brazil	s.q.	11.00
31	Bank of Mexico	s.q.	3.50	16	Bank of Canada	s.q.	1.00
FEBRUARY			AUGUST				
3	Reserve Bank of Australia	s.q.	2.50	23	Reserve Bank of New Zealand	+25 b.p.	3.50
6	European Central Bank	s.q.	0.25	30	Federal Reserve	s.q.	0.25
6	Bank of England	s.q.	0.50	SEPTEMBER			
13	Bank of Sweden	s.q.	0.75	2	Reserve Bank of Australia	s.q.	2.50
17-18	Bank of Japan	---	---	3	Bank of Brazil	s.q.	11.00
26	Bank of Brazil	+25 b.p.	10.75	3	Bank of Canada	s.q.	1.00
MARCH			OCTOBER				
3	Reserve Bank of Australia	s.q.	2.50	2	European Central Bank	s.q.	0.05
5	Bank of Canada	s.q.	1.00	6	Reserve Bank of Australia	s.q.	2.50
6	European Central Bank	s.q.	0.25	6-7	Bank of Japan	---	---
6	Bank of England	s.q.	0.50	9	Bank of England	s.q.	0.50
10-11	Bank of Japan	---	---	22	Bank of Canada	s.q.	1.00
12	Reserve Bank of New Zealand	+25 b.p.	2.75	23	Bank of Norway	---	---
19	Federal Reserve	s.q.	0.25	28	Bank of Sweden	---	---
20	Swiss National Bank	s.q.	0.00	29	Reserve Bank of New Zealand	---	---
21	Bank of Mexico	s.q.	3.50	29	Bank of Brazil	---	---
27	Bank of Norway	s.q.	1.50	29	Federal Reserve	---	---
31	Reserve Bank of Australia	s.q.	2.50	31	Bank of Japan	---	---
APRIL			NOVEMBER				
2	Bank of Brazil	+25 b.p.	11.00	3	Reserve Bank of Australia	---	---
3	European Central Bank	s.q.	0.25	6	European Central Bank	---	---
7-8	Bank of Japan	---	---	6	Bank of England	---	---
9	Bank of Sweden	s.q.	0.75	18-19	Bank of Japan	---	---
10	Bank of England	s.q.	0.50	DECEMBER			
16	Bank of Canada	s.q.	1.00	1	Reserve Bank of Australia	---	---
23	Reserve Bank of New Zealand	+25 b.p.	3.00	3	Bank of Brazil	---	---
25	Bank of Mexico	s.q.	3.50	3	Bank of Canada	---	---
30	Bank of Japan	---	---	4	European Central Bank	---	---
30	Federal Reserve	s.q.	0.25	4	Bank of England	---	---
MAY			NOVEMBER				
6	Reserve Bank of Australia	s.q.	2.50	5	Bank of Mexico	---	---
8	European Central Bank	s.q.	0.25	10	Reserve Bank of New Zealand	---	---
8	Bank of England	s.q.	0.50	11	Bank of Norway	---	---
8	Bank of Norway	s.q.	1.50	11	Swiss National Bank	---	---
20-21	Bank of Japan	---	---	16	Bank of Sweden	---	---
28	Bank of Brazil	s.q.	11.00	17	Federal Reserve	---	---
JUNE			NOVEMBER				
3	Reserve Bank of Australia	s.q.	2.50	18-19	Bank of Japan	---	---
4	Bank of Canada	s.q.	1.00	DECEMBER			
5	European Central Bank	-10 b.p.	0.15	1	Reserve Bank of Australia	---	---
5	Bank of England	s.q.	0.50	3	Bank of Brazil	---	---
6	Bank of Mexico	-50 b.p.	3.00	3	Bank of Canada	---	---
11	Reserve Bank of New Zealand	+25 b.p.	3.25	4	European Central Bank	---	---
12-13	Bank of Japan	---	---	4	Bank of England	---	---
18	Federal Reserve	s.q.	0.25	5	Bank of Mexico	---	---
19	Bank of Norway	s.q.	1.50	10	Reserve Bank of New Zealand	---	---
19	Swiss National Bank	s.q.	0.00	11	Bank of Norway	---	---
				11	Swiss National Bank	---	---
				16	Bank of Sweden	---	---
				17	Federal Reserve	---	---
				18-19	Bank of Japan	---	---

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively.